

The State of Pakistan's Economy: What Next?

Dr Masuma Hasan:* Distinguished guests, members and friends of the Institute, it is my pleasure to welcome you to this session on the economy of Pakistan. When I first thought of holding this session, I described it as the 'State of Pakistan's Economy: The Elephant in the Room.' On reconsideration, I did away with the elephant in the room because I thought that some of our audience may not understand what it means.

As you know the economy of Pakistan has been under scrutiny, not only in our own country but also throughout the world. It has been the cause of great concern, especially over the last few years, and various people have linked it with various scenarios of gloom and doom. Some are more optimistic than others, but by and large there has been a lot of concern. Parallels have also been drawn between what is happening in Pakistan and how it could be similar to what has happened in Srilanka. However, the help which we have received recently from the IMF seems to bring some economic stability.

I am not an economist by profession, I am a political scientist, and my own understanding of what we are confronting today is that there may be many other reasons for a very long time various governments have followed economic policies which were pro-elitist and gave a lot of protection to the richer segments of our society. We have three distinguished panellists. Dr Aqdas Afzal is the first speaker.

Dr Aqdas Afzal:* It is a huge honour for me to be sitting here, being introduced by Dr Masuma Hasan, in this historic institution, with luminaries like Shabbar Zaidi and Dr Kaiser Bengali.

I consider myself more as a social scientist than an economist. I have two Master's degrees and a PhD that was in political science. My approach is always from a political economy lens. Before coming here today I was thinking about how to share my message with everybody here. In today's message I will speak about institutions and will try to convince you that our thinking about Pakistan as a country, as a system, as a polity, has been wrong. I believe it is necessary to rethink and recalibrate many things in Pakistan.

Proceedings of a Seminar on 'The State of Pakistan's Economy: What Next?' held at The Pakistan Institute of International Affairs on 15 July 2023.

* Dr Masuma Hasan is Chairperson, The Pakistan Institute of International Affairs.

* Dr Aqdas Afzal is Assistant Professor, Social Development and Policy, School of Arts, Humanities and Social Sciences at Habib University.

We largely live in what can be called an Anglo-Saxon world. We have the English Common Law which forms the basis of adjudication and the judicial system. We speak in the English language, the world speaks in the English language, and I am currently speaking in English. Why Anglo-Saxon? Because we live in a capitalist system. I am not saying it is an Anglo-Saxon invention, but it has a large imprint of Anglo-Saxonism.

Which Anglo-Saxon institutions? Primarily, the institution of property rights which means something belongs to you legally, nobody can take it away from you, even the state cannot take it away from you unless they use the eminent domain. Property rights is a very important explanation of why the West became developed and therest did not develop like the West. If you refer to Arnold J. Toynbee or Michael Hudson, there is a very long tradition of people talking about the importance of property rights, and how they bring economic growth within systems. I am not saying I accept this, only that it has a very long tradition. So, property rights is an important foundational and fundamental idea.

In Anglo-Saxon institutions the number one idea is of property rights and another great Anglo-Saxon invention is cricket. Recently, during the Ashes (referring to the cricket tournament), one English batsman stepped out of the crease and he was stumped because the rules are very important in cricket. They are also called the rules of the game. But what we are never told is that, even though the Anglo-Saxon world talks about its institutions and property rights, they never reveal how much agility and flexibility exists in their institutions.

According to the situation, institutions evolve and change with time. An interesting example is with respect to the Ashes. Recently, the English fans and English cricket team were up in arms: 'this is not cricket, you are not following the rules of the game.' I will take you back to a series between England and Australia in 1932-33, called the Bodyline series. Interestingly, Donald Bradman, who was a fantastic player, some of you may have heard of him, to call him the bowling method was completely changed and it was called Bodyline. So, the so-called Anglo-Saxon institutions also change with time. There is no guarantee that property rights in history would stay the same.

Before I move to the second part of my remarks, the summary of the first part is that institutions are very important for development, but which institutions? Property rights? But property rights change and they have changed just like other institutions in the Anglo-Saxon world.

The second part of my remarks starts with the idea of the Washington Consensus. In 1989-90, an idea became dominant in the developed world,

called the Washington Consensus that says, 'In the battle between the state and the market, the markets must come to dominate everything and the state should just wither away completely.' And then we see the beginning of the domination of international financial institutions, like the IMF, and talk of free trade. Pakistan's economic problems started when we opened our trade to the world. India's economic rise started when they opened themselves to trade and our decline started when we started trading with the world. So, the same institution, working for one country and not working for the other country.

The problem is that we opened our economy at the behest of the Washington Consensus but didn't think whether or not we can actually trade with the world. Do we produce anything for which there is a demand in the world? In 2007-8, following this mantra, we entered into a free trade agreement with China and we are still running a huge deficit with China. So, the characteristics of our economy and the complexity of what we produce is not such that we can prosper in a free trade regime. At that time the dollar was worth 25 rupees and today it is almost 300 rupees. We must remember that these institutions have been made by Anglo-Saxons, primarily the Washington Consensus, and our economy cannot compete with them.

Institutions evolve over time. Recently, America has changed its entire economic policy paradigm. For the last 30 to 40 years we were being told to follow the Washington Consensus, there should be free trade, free movement of capital and goods and we have thus shifted our economic paradigm. Can somebody tell me why? Because they have only one objective, competition with China, and they have simply changed the free trade regime. They are saying that now they will apply strategic production and strategic tariffs on the components of semi-conductors so that China cannot not produce them. What I am trying to say is that something is written in books but in practice it is something different. Countries are very selfish with the way they proceed. America has moved towards what can now be called almost state capitalism. The way the East Asian countries have developed has been a great change.

So far I have spoken about the importance of institutions, property rights, and how institutions change. And what we have been told all along: to follow the Washington Consensus, free trade and free capital. But our economy is in a bad state, from 25 rupees the dollar has reached 300 rupees. And if we hadn't got help from the IMF programme, there would have been up to 500 to 800 rupees currency free fall. Our economy cannot continue to run on the current lines. We have to get serious and do three things. Number one, nobody talks of investment in human capital in which our numbers are abysmal in education and health. The average or median

years of schooling of our workforce is about five years. Compare that with India's nine years and South Korea's 12 years. You want to compete with the world in free trade and your people are uneducated, so your work force can't be skilled. Who ever is serious about turning things around, will have to invest in human capital, education, safe drinking water, health. When you give your people all these things, production will be value added and you will be able to compete in free trade. Otherwise, you won't be able to compete for the next 500 years.

Number two, our state needs to be strategic in terms of what kind of things we need to produce. So, now I am thinking about the East Asian model, we must move towards the state capitalism model. We will have to identify the winners and give them support so that we can compete with the rest of the world in terms of exports. Everything can't be exported, you have to become strategic. Our institutions will have to show tremendous agility, flexibility, and evolution. The foremost problem with our institutions is the civil service created by the British.

I have not yet spoken about democracy and the people. On the one hand, you want to make massive investments in human capital, bringing in the principles of state capitalism by identifying and selecting winners and providing them with favourable conditions like low-interest rates and affordable electricity. And then, you are moving towards collaborating with local governments. So, in all this, what will happen to our democracy?

I am not advocating that we should copy the China model or any authoritarian system; that would be devastation for this country. Pakistan is not China, where 93 per cent of the population belongs to one ethnicity, the Han Chinese. In Pakistan, there are so many cleavages and faultiness: north, south, east, and west, based on race, language and gender. So, I think democracy has to be preserved, and I really feel that Pakistan's welfare state institutions like BISP are a great achievement and we need to move towards BISP plus in future. Only equality-based societies progress in the world.

Shabbar Zaidi:* I am really honoured to be speaking at this programme before this august audience. I will start my conversation with one *shair* (poetic line) of Jaun Elia which reflects the present state of Pakistan:

* Syed Shabbar Zaidi is former Senior Partner AF Ferguson & Company, and former Chairman, Federal Board of Revenue.

*Me bhi bohot ajeeb hoon itna ajeeb hoon k bas
Khud ko tabaah kar liya aur malaal bhi nahi*

Our problem is that we do not even realize how we have destroyed Pakistan and we have no regrets about it. The first fact about the state of Pakistan's economy is that there is no possibility of repayment of foreign debts of 130 billion dollars as per the schedule. According to our present schedule, we don't have the money to pay the 91.5 billion dollars which we have to pay for the next three years. Our debt servicing today amounts to 7,300 billion rupees, but we do not have the fiscal space for 7,300 billion dollars. Our discount rate is 22 per cent under which no business can be conducted.

Eighty-five (85) per cent of the debts of the banks are borrowed by the government, and banks' own advances are all public deposits. So, public savings are now being borrowed by the government of Pakistan. Therefore, there is no investment in that sense. What ever people deposit in the banks are given by banks to the government, which uses it. So, 85 per cent of the money in the market is people's deposits in banks, which give it to the government of Pakistan. This is the financial position of Pakistan.

Inflation stands at 30 per cent plus. The subsidy on electricity has reached nearly Rs. 1000 billion. State owned enterprises' losses are over Rs. 1000 billion and unfunded pensions run into trillions of rupees; pensions only cost over Rs. 600 billion. Fifty (50) million children do not get any education in Pakistan and we have one of the highest population growth rates in the world. In the last 20 years, India's population increased by 25 per cent; however Pakistan's population increased by 50 per cent. We have added 80 million people in the last 20 years. This is the state of Pakistan's economy. The facts cannot be denied and there is no confusion about them.

What next? I have put forward three practical scenarios. One scenario is to maintain the status quo, begging support from the IMF and postponement of repayment from year to year. Military tensions on all three borders and elections in a controlled democracy. Hold mass elections with the same people and make no fundamental changes in the economy and when money is needed, get it from the IMF or other countries because you believe that the international community will not let a country of 220 million people, and a nuclear power, to default. They will keep giving us loans and we will carry on. This is the first scenario.

The second scenario is a mid-term strategy which is reprofiling of the debt or default management as required. You will have to properly reprofile and manage your debt because you cannot pay off your debt of

130 billion dollars. And Pakistan's domestic debt has become so huge that we will have to take a haircut on it. In the newspapers you must have read articles that we must not take a haircut on domestic debt. In *Dawn* recently there was an article by Saleem Raza and Zafar Masood that we should not take a haircut and the debate on this issue continues.

Change the NFC award and privatize on a speedier basis. There should be no immediate election, a caretaker government for three years should complete the design of a strong programme, because an elected government will not be able to take these steps. This is the second scenario.

The third scenario is a long-term autocratic economic regime, restructuring Pakistan's economy and strategy on a new basis. The nature of autocracy can be decided, it does not mean martial law. A common minimum economic plan as briefly described in the following slides to be made part of the Constitution as the basic premise that cannot be amended. You will have to bring about an autocratic economic plan for Pakistan. I have worked on both sides of Pakistani society, and know that our society is not used to working in civilized norms, so autocracy is necessary, either through the military or socially. You can't keep saying that the trader should not be registered, there will be no documentation, the shop won't pay taxes. Therefore, an autocratic economic policy is necessary. How? It does not necessarily mean the imposition of martial law, although I don't deny that martial law is possible. A part from these three scenarios, no other scenario can take Pakistan's economy forward.

It is expected, and I am saying it with conviction, that scenario one is scheduled: *carry on as at present*. This suits all stakeholders; however, if so, problems will be multiplied, not resolved. From the *economy's* point of view, we need scenario three. Our country will fail if scenario one is adopted without a minimum programme. If we do not adopt a minimum programme, Pakistan's economy will collapse, no matter what we do. Even if we get the help of angels, the economy will collapse.

Now, what is the minimum programme? Before I go into the details of the minimum programme, I want to give you a historical perspective. The experiment of a separate state for the Muslims of the subcontinent in 1947 has not given the desired result. We cannot deny this. Those who parted ways in 1971 appear to be better off. We cannot let this experiment fail, but I am saying with conviction that on the economic side, we have failed.

I will quote from the book recently published and launched in London, the autobiography of Major General Iskandar Mirza. On pages 183-184, Mirza says, 'Not long before his death, Quaid-i-Azam told a friend that he had not expected the British to transfer power for fifty years. So, Pakistan

arrived before Mr Jinnah expected and before he had time to make proper plans for the political system for the Muslims of India. From the birth of Pakistan, one crisis had followed another; the unexpected always following the expected. I had to gain a breathing space in order to consider how we could work towards a genuine democracy in Pakistan. I could expect no help from politicians and, I said in my proclamation, 'We cannot get men from the moon.' And that is why I turned to the Army with which I had been so closely connected so long.' He wrote this in 1957; in 2023 we are still standing there.

So, what is to be done? The first thing, which is very important is to take a U-turn on strategic advantage. We have always blocked the countries on our east. We are sitting between energy and the east side of Pakistan. We have to take a U-turn for our neighbours on the eastern side. Neighbours does not mean India only, neighbours also means India, Bangladesh, Myanmar, and Cambodia. Energy is on your right side and the requirement of energy is on your leftside. If you don't take this U-turn, there will be no prosperity for you in the future. Bangladesh is only 1,500 miles away from Pakistan, and both Bangladesh and India are facing energy shortages. We can see gas pipelines from Russia going to Turkey, why can't we have a pipeline from Saudi Arabia to Bangladesh going through all the intervening states?

Secondly, we need to reconsider the US-Pakistan relationship in a manner where China serves as our supplier while the US acts as our buyer. Not because the US is close to India and we are close to China; India is now on a different tangent. We cannot compete with the India-US relationship, it is a foregone conclusion. We have to decide that China is our supplier and the US is our buyer. Dr Aqdas may not agree with me, but being a businessman, I understand that if I want to increase my exports from 30 to 100, my only potential buyers are the European Union or the US. Running down Amricais not a sensible thing to do. Dr Aqdas does not accept the Washington Consensus and I totally agree with him, but I have no options, I have no money, I need dollars. So, any commercial person would prefer to have good relations with the buyer rather than with the supplier.

Thirdly, transparency in CPEC. The CPEC project is one of the least transparent projects. This is the red signal (*laal batti*) for the nation. For 10 years we have been sitting with CPEC. This project should be made transparent.

Next is the smuggling to Afghanistan and Iran. I have been Chairman FBR. The question is not whether we can stop the smuggling, but whether our state wants to stop it. We will have to settle the issue of trade with

Iran and Afghanistan. The dollar in Pakistan won't stabilize if trade and smuggling to Afghanistan continues. Money is sent through *hawala*. We have allowed smuggling, but want the dollar to stabilize. How is that possible?

The next step is to correct the National Finance Commission's (NFC) award given 12 years ago in 2010. It should be examined and corrected. A portion of the interest servicing will have to be allocated to the provinces because the federal government cannot afford to do it. When the NFC award was given, we also introduced Article 140A in the Constitution through the 18th Amendment which is about the local government system and empowers local governments' financial autonomy and investment. Twelve years have passed but nobody remembers it.

Pakistan's finance bill is approved in the National Assembly, but is not taken to the Senate. Fifty-five (55) per cent membership in the Senate comes from Punjab, so they can do whatever they want. When the Senate cannot consider financial matters, why do we need the Senate?

The worst disaster is that we have finished off the Planning Commission. Revive the Planning Commission and appoint a five-year term chairman. We don't need Manmohan Singh, we need Montek Singh Ahluwalia, who was the chairman of India's planning commission for six different governments. On a visit to India, I sought some amendments in the law for the Institute of Chartered Accountants Pakistan because I was the president of the South Asian Federation of Accountants (SAFA). They told me, only if Montek Singh Ahluwalia and the planning commission agree, there will be a change. This is the economic policy. The National Assembly's responsibility is to execute the economic policy drawn up by economists. I am a chartered accountant and don't know any economics but I make laws everyday, not knowing the economic effects of those laws.

We have to divide Pakistan into two economic divisions: the north and the south which should be a model like Vietnam and Bangladesh. Because we don't have exportable surplus, we have to import in order to export. You cannot say I will get cotton, take it to Faisalabad, make it in Faisalabad and then take it back to Karachi because you do not have the cotton for whatever textiles you are exporting. You import the cotton and then sell it. So, you must divide Pakistan into two economic zones, i.e., the north and south.

Pakistan's loans can be paid off only by selling off the state's land in a transparent way. Somebody at the IMF conducted a survey of Lahore city and discovered that 64 per cent of the land in Lahore is either directly or

indirectly owned by the government. In Karachi the builders' mafia is active and land is being illegally occupied which must be stopped.

Who will bell the cat? All the stakeholders, during their private meetings and discussions agree that the suggestions mentioned above are the only solutions. I have had detailed meetings with the former Chief of Army Staff. They agree that all these steps should be taken. However, they have two issues. One, they have a fear of the unknown outcomes of making fundamental changes. Secondly, there exists a significant desire within our society to maintain the status quo. Politicians, the establishment, the media or society, they all want scenario one.

I will conclude with Iftikhar Arif's verses:

*Chiragh-i-hujra-i-darvesh ki bujhti hui lau
hawa se keh gayi hay ab tamasha khatam hoga*

*Kahani aap uljhi hay k uljhai gayi hay
ye uqda tab khulega jab tamasha khatam hoga*

*Tamasha karnay walon ko khabar di jaa chuki hay
k parda kab girega, kab tamasha khatam hoga*

Dr Kaiser Bengali:* It is always a privilege to speak at this forum before this august audience. With a heavy heart I have to say that the Pakistan that I knew no longer exists. Two windows have closed, perhaps permanently: one is the economy window, and the other is the security window. The economy has now been reduced to a very simple task. Reference has been made by Shabbar Zaidi about how much debt we have which we can never repay. This means that any finance minister of Pakistan or any government of Pakistan has only one very simple task, how to get more loans to repay past loans. That is the only function of the economy that is left. There will, of course, be lots of statements about revenue generation, development, industrialization, education, and health. There is no money for any of these, and nothing will happen. These are all fairy tales. We have just seen the budget. It is just a bunch of numbers. The revenue that it claims to collect will never be collected, and the items on its expenditure list will never be spent because we do not have any money.

The only thing we need to do now in terms of managing the economy is how to get more loans to repay past loans. As a corollary, since we will not

* Dr Kaiser Bengali is an eminent economist, former Adviser to the Chief Minister of Sindh for Planning and Development, and head of the Chief Minister's Policy Reform Unit, Government of Balochistan.

be able to secure enough loans to repay all our past debts, we will have to sell our assets. Everything is up for sale, everything. We already have a banking sector that is 80 per cent foreign-owned, and our telecom sector is 100 per cent foreign-owned, but more is yet to come. We have just privatized or announced the privatization of a port terminal in Karachi, and a Saudi team has visited all our airports and three major airports are about to be handed over to foreign interests.

All kinds of terminology are being used, claiming that we are not selling these assets but just outsourcing them. Basically it is handing over the control of these assets, and more and more will follow. Soon, we will become employees of the Chinese, Saudis, Iraqis and other employers, and Pakistan will be owned by them. Our economic sovereignty was lost long ago, this did not happen today. From 1993 onwards for 16 years, three State Bank governors were appointed outside of Pakistan. They were employees of international organizations and had not served in Pakistan for more than ten years.

Now that we have formally buried our economic sovereignty, the economy window has closed. There will be a sub-sector of the economy aligned with foreign interests that will thrive and their employees will enjoy high wages. We have already divided Pakistan into areas where the rich live and the poor reside, and this division will be further reinforced. So, the economy window has closed, and I believe it is closed permanently. I don't think we will regain our economic sovereignty for at least the next 30 years. What will happen after the next 30 years is difficult to say.

The security window has also closed, and the international geostrategic architecture has changed. I don't know if Rawalpindi has realized it or not, but it has changed. For 60 years out of the last 75 years of Pakistan's existence, we cashed on the Cold War between the United States and the Soviet Union because Pakistan was needed. Pakistan provided its services, it did all the dirty work for the Americans. And, of course, we were paid for it. We were not opposed to doing anything dirty as long as we were paid for it. When we found that dollars are coming in green envelopes, we became Islamist, and when we realized that dollars would now come in blue envelopes, we became liberal.

So, as long as dollars kept coming, we were willing to sell our services. The United States does not need our services anymore. The confrontation is not with Russia, despite the war in Ukraine, the confrontation is with China. This is the geostrategic architectural shift that is taking place. If the confrontation is with China, the Americans need India, not Pakistan. In fact, Pakistan is an irritant in the process, and that irritant has to be tamed. We will be defanged no doubt about it. And if we are defanged, then,

of course there is no security role to play, no wars to fight. If we are not permitted to fight any wars, then what will happen? The economic footprint of the military will increase because if they are not fighting, then what will they do? They are already involved in the services sector and industry. We now know that they are moving into agriculture. They wanted 100,000 acres of land in Punjab. They are already involved in laundries, meat shops, and various other ventures, and that will increase.

We achieved independence from British colonialism, and now we seem to be entering the stage of cantonment colonialism. So, two windows have closed: the economy and security. This is not the same Pakistan that I knew five years ago or three years ago. Dr Masuma appreciated the fact of 'What Next?' I don't think that there is a next.

Questions and answer session

Question from audience: Kaiser Sahib has rightly said that this is not the Pakistan of five years ago. The last government got 22 billion dollars. Where were they spent? Nobody knows. Can you tell us?

Shabbar Zaidi: If I understand you correctly, what you are asking about is our dollar inflow. Development expenditure has no direct relation with Pakistan's people. In the old days we used to take development loans. Now the dollars we receive are only meant to repay past loans. We have a loan of 130 billion dollars which we keep swirling around. When our instalment is due, we take a loan of 10 million dollars and pay our debt, but it will become 130 billion dollars again. The reason is that our current account is always negative. 2023 is the only year in which the current account was even because we cut down on imports, otherwise every year the current account is negative to the tune of minimum 8 to 9 billion dollars. So, first we have to pay the negative amount and then pay our debt. That is why, it is a reality that Pakistan today cannot pay its debt on time. Those 22 billion dollars were spent on making repayments.

Adqas Afzal: Around October 2021, Pakistan's economy was functioning well. When we refer to Pakistan's economy, we are talking about budget deficit, current account deficit, imports and exports. But in Pakistan there is also the economy of the poor which is a political issue and no government is willing to release poverty figures. Do we know how much poverty there is? It is a very explosive issue. In October-November 2021, we had 21 billion dollars and Pakistan's polity was running well. In February, when the Russia-Ukraine war started and oil prices went up, our policymakers did not pass on the price because they were apprehensive about the the political situation. In February 2023, our foreign exchange reserves were less than 3 billion dollars, although they have now recovered.

The short answer to your question is that because of the political crisis and international economic crisis, Pakistan's foreign exchange reserves evaporated, but we went to the IMF and there is stability now.

Question from Zubeida Mustafa: You haven't addressed the issue of corruption which is eating up our country like termites. In your calculations have you thought about a solution?

Kaiser Bengali: Corruption is not the problem of this country. If my tap is leaking, the water will drain out. The water being drained out is not a problem, the tap is the problem. The institutional framework of this country has all broken down bit by bit. There is no control anywhere. If you leave the door open, you will be robbed. The problem is institutional, it is not that people are good or bad. There are corrupt people and non-corrupt people. So, instead of targeting corruption per se and howling about it, we have to concentrate upon and discuss the institutional flaws that are causing this leakage.

Question from audience: Shabbar Sahib, you said that our relations with our neighbours are not good. Who is responsible for that? My second question is for Kaiser Bengali. You said that both our economy and security windows have closed. Who is responsible for that?

Shabbar Zaidi: No country can change its neighbours. We must review our India policy because, at present, a settlement on Kashmir which would favour Pakistan doesn't seem possible. So, with this pending issue, we cannot change our economic strategy. Unfortunately, today the position is that even if we agree, they are not willing. Similarly, we must turn our attention to our volatile borders with Afghanistan and Iran. There is a big perception that the military is responsible for our adversarial relationship with India. But the basic reason are Pakistani businessmen who have designed their businesses in a manner that they would be wiped out in 10 minutes if they were to face true competition from India. We have to consider how we can reconstruct the paradigm of regional trade, otherwise there will be serious problems.

Kaiser Bengali: You asked who is the responsible for this state of affairs. We should not point to individuals because nations are not run by just individuals. Two major culprits in bringing Pakistan to this state of affairs are the budget deficit and the international trade deficit. If you spend 200 rupees or more for every 100 rupees of revenue, and you do this for 25 to 30 years, and if you import 200 dollars or more for every 100 dollars of exports, and again you do this for 20 years, all while financing both deficits with loans, you are bound to reach the crisis in which we are today. So, the solution is cut the budget deficit, reduce the number of

ministries and divisions in half, trim the defence budget, and only then can we start talking about stability. Since I don't see that happening, that's why I said I don't have an agenda for the future.

Question from audience: I have a question for Dr Aqdas Afzal. In the 'What's Next?' portion of your speech, you mentioned that Pakistan needs to invest in its human capital. Given the very bleak picture of the economic conditions in Pakistan, do you believe investing in human capital is possible at this moment?

Aqdas Afzal: Your question revolves around the idea that we are facing a budget constraint, and you wonder how we can invest in human capital in these circumstances. I don't buy that argument because I think we have the money, the problem lies in our priorities. We consistently spend a significant amount of money on other very expensive items. That's why I think we have the money but we must reduce the size of the state, its machinery and ministries. For example, why don't we have a ministry of human development and add in it education, health, and four or five such ministries. That's one way of doing it. In every department there is duplication of work at the federal and provincial levels.

I had the misfortune of asking a very premier institution for my PhD equivalence in Pakistan. Despite knowing a lot of people in Islamabad, being on TV all the time, and writing for *Dawn*, it took me six weeks. This was a quick task, the higher education authority could have easily contacted my university in Missouri, and they would have confirmed that I have a Ph.D. degree. But I was asked for senior Cambridge certificate, intermediate certificate, passport, visa exit and entry stamps, and birth certificate. So, that is why state modernization is very important, as through its efficiency, we can save a lot of money that needs to be invested in human capital. Economic policies cannot be separated from social policies; they are one and the same.

Shabbar Zaidi: I was Sindh's finance minister in 2013 and can categorically state that after the NFC award, the provincial government was not short of funds, not for education or health. They lacked the capability and capacity to deliver. In Sindh, thousands of teachers never attend schools and the largest expenditure is on the salaries of school teachers. After the NFC award, the federal government gave money to the provinces, but the provinces did not have the capability to deliver. Because of this we see the human development problems and NGOs have indirectly contributed by differentiating between schools adopted by them and schools run by the Sindh government. So, we need to implement the policies of the education department. I can assure you that, at least in Sindh, there is no issue with financing.

Question from Yash Raj: You mentioned that the East Asian model succeeded primarily due to their regional integration. How might this model work in the case of Pakistan? Another question is, having seen this gloomy picture, shall we conclude that we are doomed, or is there any ray of hope?

Aqdas Afzal: The idea that there is only one pathway to development is completely wrong. We have been presented with the idea of the Washington Consensus, which advocates free trade, free capital, and the free movement of goods. If we manufacture US products, for example coca cola, which is sold and consumed here, and you get paid in dollars for it, why shouldn't the people of my country not be allowed to go and work in your country? Everything should be free, even the free movement of labour. The US itself is one of the biggest promoters of free market capitalism; they are now discussing industrial and innovation policies. We will also have to evolve our own thinking about the model of free trade, with stuff coming into our country, we will not be able to catch up for the next 500 years. What is the best economic growth strategy? One model before us is the East Asian model. I am not talking outside capitalism, but about a combination of state and capitalism, about the state and market approach, not state versus market.

Kaiser Bengali: We are facing many issues today on which we have to concentrate. We are not facing a crisis of education, we are facing bankruptcy. Industries and businesses are closing down. However, we have averted bankruptcy by taking loans, but we are still bankrupt. For the last 23 years, all our reserves have been loan money. We can't talk about governance and all the other issues which are undoubtedly very important, that all of us, myself included, have been engaged in for the last 30 years. But today, we are bankrupt because the government is spending more than twice, what it is generating and importing more than twice of what it is exporting.

I am gloomy because I don't see any options being worked out. India recently announced that it is abolishing all cantonments and handing over cantonment lands to the municipal authorities. Along the GT Road between Lahore and Peshawar, there is on average, a cantonment every 25 miles. Most of these cantonments were built by the British due to the danger of Czarist Russian invasion in the 19th century. Today, we have friendly relations right up to Moscow, so we don't need these cantonments.

Look at Karachi, both sides of Sharah-i-Faisal are actually military-owned. For what purpose? What is the military's imperative, how does it relate to Pakistan's security? Expansion of Sharah-i-Faisal or the addition of extra lanes is hindered because the land is owned by the military. The

distance from Karachi University to the airport is quite short, but the project for that road has been pending for at least 30 years because it passes through military territory. Therefore, if you want to travel from Karachi University to the airport, you first have to go to NIPA Chowrangi and take a detour. So, we can generate revenue by selling all the cantonment land.

There is a plan to shift the GHQ from Rawalpindi to Islamabad. I suggest abandoning that plan and selling the land to foreign investors in dollars. Many countries have a coast guard, but we have two agencies performing the same tasks: the Coast Guard and the Maritime Security Agency. It would be wise to shut down one of them. Furthermore, we have a Ministry of National Harmony, can you imagine that? It has a secretary, additional secretary, joint secretary, deputy secretary, and so on. In the past, the Post Office had one director general and one additional director general. However, it's worth noting that very few people in this hall have posted a letter in the last 10 to 20 years. Today, the Post Office has one director general and nine additional directors general, which seems excessive.

We keep expanding and spending money, but we are neglecting essential investments in industrial and agricultural infrastructure. Both of these infrastructures have deteriorated, leading to a decline in productivity. Once we were exporters of cotton, but now we are importers. Why has this happened? It is because of certain vested interests, such as the sugar mafia. Due to the double subsidy that the government provides with our taxpayer money, the sugar acreage is expanding at the expense of other crops. We have the potential to cultivate our own pulses, but we choose to import them instead.

Certainly, we can turn things around; there is always hope. However, I lack hope because the individuals in control of this country are not inclined to make any changes. They seem content to watch the country disintegrate rather than implement reforms. Real change will only come when the people take to the streets and demand it.

Shabbar Zaidi: In my 14 June 2023 article in the *Business Recorder*, I have given a list of finance ministers from 1948 to 2023. From 1948 to 1971, there was no Bengali finance minister. From 1971 to 1977, except Mubashir Hasan and Hafeez Pirzada, they were all technocrats. None of Pakistan's finance ministers lived in Pakistan after being finance minister. None of their children live in Pakistan. These are the real facts of Pakistan.

Question from audience: My question is, who will bell the cat, what is the way forward?

Kaiser Bengali: No messiah will come to save us. No country, no society has changed because one man parachuted from somewhere and changed everything. We, the elite, have the responsibility to effect change, we must raise our voices. If you believe something is wrong, speak out. If you find it acceptable for two-thirds of our children to be malnourished and supermarkets to be stocked with imported dog and cat food, and if you tolerate all this, then consider what kind of society we have become.

Shabbar Zaidi picked up the bottle of Aquafina and gave a very good example about the kind of society we have been. They sell us bottles filled with water from our taps and send the dollars abroad. We have ruined our matric system. Generals, ministers, bureaucrats educate their children in O level and A level schools and millions of dollars go to Cambridge every year.

We have tolerated this situation not just for three or five years, but for half a century. We, the elite, have been very comfortable in our lives. We live in comfortable bungalows. The government has created separate areas for the rich, while the poor can go to hell. We were content, but now we are paying the price. It is time for us to stand up and do our part.

Aqdas Afzal: As Kaiser Sahib has said, there are two Pakistans. Those who are rich drink clean water, they hire guards for their security, their children study in private schools and then go abroad to study. This is the thinking of the Washington Consensus and the technocrats who come from there. Finally, I want to say that like other countries have changed their paradigms, we have to fundamentally change ours and come out of the Washington Consensus. We will have to move towards state capitalism and investments in clean drinking water, education, health, at a bare minimum.

Kaiser Bengali: Dr Aqdas, I have to challenge you on this. When you say it is the Washington Consensus, you are telling people to train their guns on Washington. No, Washington is not responsible for us; we are responsible. We have done this and we have used Washington as an excuse. It is very convenient for the military and civilian elite to accuse the Washington Consensus.

When the Soviet Union invaded Afghanistan, we had a choice to play the American page boy or not. We should have refused; we should have said this is not our war, and you should fight your war somewhere else. But we did not do it because we had free dollars coming in. There were generals who now have ventures in the United States. So, we are responsible, Washington is not responsible. One finance minister, I won't name him, in Islamabad, very clearly said, we can always fire our guns on

IMF's shoulders; it is very convenient to do so because it is politically popular. But we have to make decisions and we have to cut wherever cuts are required.

Shabbar Zaidi pointed out very correctly, if I have to pay 100 dollars as my loan repayment and my current deficit is another ten, then I have to borrow 10 dollars plus 100 dollars, and it keeps multiplying. So, let us bring our current deficit to zero, government expenditure should be equal to revenue, imports should be equal to exports, and then we are only left with handling our past loans, and in time, we will cover it. It is Rawalpindi and Islamabad who are responsible, not Washington.

Question from audience: There are many weaknesses in our educational system. We should link industries with educational institutions, so we will get to know which experts we need. What is your point of view?

Shabbar Zaidi: After 1970, Pakistan has had no economic plan. We work on a day to day basis. The finance minister's only task is to arrange cash, so how can you expect an economic policy in which education and industry are integrated. I said in my presentation that if Pakistan is to be kept alive, we need an empowered planning commission with a person in a term post. Today, when a government changes, the first person to be changed is the deputy chairman of the planning commission. So, make the deputy chairman of the planning commission's position a term post, and make him in charge of economic policy. Then, what you are suggesting would be possible.

Masuma Hasan: I must admit that this session has taken a turn which I had not anticipated. It has been very provocative. As I said, Shabbar was provocative. Kaiser was brilliant as usual, but this time he had a completely different point of view. And we have all learned and understood that there are two Pakistans. But this is the story of many countries, not something that has happened only in Pakistan. There are many unfortunate underdeveloped countries which have suffered from a lack of vision in economic and social planning. Although the overall impression that we get from what we have heard today is that things have gone terribly wrong, from the statements and presentations of all three speakers, have also emerged many suggestions which, if any government or series of governments wants to take up, can certainly bring some relief. I want to thank the three speakers for their very informative and also very passionate presentations, full of vigour, and in some parts full of hope.